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Assessment of Companies' Peripheral Vision Capability - The Case of The Indonesian Manufacturing Industry

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Abstract

In this research, the concept of a firm's peripheral vision capability (Day & Schoemaker, 2006) is adopted in relation to a firm's ability to generate market knowledge, and a firm's market position in relation to decisions over marketing strategy competitiveness. A questionnaire was developed based on dimensions and items for 'market turbulence' and 'internal peripheral vision capability' (IPVC). From a total of 120 returned questionnaires, the analysis in assessing the typology of peripheral vision capability has revealed that 25 firms belong to the vigilant typology, 35 firms are of neurotic typology, 30 firms are in the focused typology and 30 firms are vulnerable. Further findings revealed that correspondent to the typology and the characteristics of the company in their product life cycle stage, the results showed that the majority of companies in the 'vigilant' typology were in the stage of 'introduction to growth'. The 'neurotic' were the majority in the 'maturity' stage. Those in the 'focused' quadrant were in the 'maturity to decline' stage and lastly were the companies in the 'vulnerable' quadrant which were in the 'growth to maturity' stage. This research contributes to the development of a company's knowledge of their position in the market and peripheral vision capability as a foundation for marketing and business strategy formulation to answer market challenges and opportunities.

Key words: Peripheral Vision Capability, Peripheral Vision Typology, Vigilant, Focused, Neurotic, Vulnerable

JEL Classification: M0

Paper Classification: Research Paper

Introduction

In contemporary society, the pace of market change is accelerating. Some basic assumptions underlie the fact (1) the increased speed of production, service and idea imitation and substitution, (2) the life-cycle of products is changing radically and is much shorter in time, (3) competition is intensifying, (4) customers are more demanding and becoming less easy to convince through advertising and other promotional efforts, (5) the relevance of information technology. Those

elements changing influences the fortunes of some firms, but not others. The changes are often pervasive and powerful. Competition will become an increasingly important element in industry and firms will have to strengthen their competitive orientation. Target market selection will be based not only on matching consumer needs with the organizational resources, but also on the magnitude of competition. The bottom line of this issue is that these markets are changing faster than marketing.

Research Problem

The rapid change of the market and business conditions are becoming a major factor of why many customer-oriented firms are facing a downturn. The studies of Tse et al., (2004) and Sin et al., (2002) have shown that the effectiveness of a particular strategic orientation depends on the dynamics of the business environment. Hence, depending upon the characteristics of the competitive environment, a firm may experience different levels of performance contingent upon its choice of appropriate strategy. The extant literature recognizes that customer development efforts and market knowledge are critically important in increasing service adoption and firm performance (Daghfous, Ashill & Rod, 2013). Therefore, a company must have mastery in understanding its environment which later can provide guidance on what strategies need to be implemented to face the challenge as well as to avail the opportunity provided by the market or the environment. Nevertheless, there is no comprehensive understanding of the nature and characteristics of competitive strategies approach; how it works under certain environmental condition and under certain firm capability. Indonesia with an increasing number of industries still requires tools to analyze the environment in order to give an insight of a company's certain positioning in relation to the internal capability and its environmental situation.

This problem exists due to the lack of studies that explore the relevance of environmental factors and firm internal capability to shape the best competitive strategy approach that leads to desirable firm performance. The fitness of competitive strategy with an external environment and the fitness with internal firm's capability need to be further explored.

Accordingly, for the purpose of this research, the capability of a firm in generating knowledge on the market that will enhance a firm's ability to choose the most suitable competitive strategy will be studied by using the peripheral vision framework developed by Day and Schoemaker (2006).

The Concept of Peripheral Vision Capability

Day and Schoemaker (2006) concluded that there are two broadly defined areas in the market from which a firm should learn: the focal area and beyond the focal area (peripheral area). A firm that does not possess the capability in detecting and interpreting what is coming from the periphery will suffer from less anticipated action in the competing market battle and may lead to inaction on opportunities and threats that would cause a firm to lose or to go into a downturn (Day & Schoemaker, 2006).

The Research Objective

This research aims to explore how peripheral vision capability will benefit firms by investigating the firm's positioning in the quadrants of peripheral vision typology.



Literature Review

Firm Typology

Strategic typologies are increasingly familiar tools in the research of marketing strategy (Speed, 1993). Firm typology or any other taxonomy is becoming more important in the study of marketing strategy, providing frameworks to classify companies on the basis of strategy. Miles and Snow typology (1978) and Day and Schoemaker typology (2006) provided types of special classifications which focus on selected attributes of the organization in forming categories (Speed, 1993). The objective of typology and taxonomies approach is to identify a natural grouping of cases as a mechanism to aid research. Typology is also beneficial as it provides the development of defensible and relevant homogeneous grouping of companies which allows testing of hypotheses across cases. Typology also provides an understanding of a firm's diversity. In addition, typology provides a mechanism for handling complex information in a simple manner (Speed, 1993).

Concept of Strategy Fit

Pressure from competition, changing customer needs and the macro-economic conditions continually confront business, requiring firms to constantly evaluate (and therefore to change) their strategies and strategic goals—in order to match with the current challenge. This approach is based on the assumption that an organization is an active system which tends to reach out and to cope with the environment effectively (Lawrence & Lorsch, 1967). The relevance of fit in strategic management is rooted in the concept of matching or aligning organizational resources and environmental opportunities and threats (Day & Schoemaker 2006; Venkatraman & Camillus, 1984). The firm's marketing and sales managers play critical roles in developing a market-oriented strategy and formulating a corporate and business strategy that is responsive to environment conditions (Mullin et al., 2008). Doyle (2000) noted the implication of the changing environment to strategy and organization. A strategy must fit with the environment, because a successful strategy may erode; effectiveness is more important than efficiency - the need for speed and decisiveness and the need to adapt. The perceived environment of a firm is the determinant of the firm's response, and it is the business strategy that incorporates, articulates and reflects on how management perceive the environment (Matsuno & Mentzer, 2000). This environment knowledge becomes the direction and focus of response or business strategy (Matsuno & Mentzer, 2000). In the relationship between perceived environmental uncertainty and strategy types he found that certain strategies favored certain environments. Furthermore, the choice situation that influences strategy will be reflected in organizational performance (Marlin, Lamont, & Hoffman, 1994).

Child, Chung and Davies (2002), stated that strategic choice perspective focused on the role played by managers in shaping the conditions and processes both outside and within a firm. Further, they proposed that the fit of strategy, involves the environment strategy which delineates the manager's choosing the product/market domains in which the organization will participate.

Hence, strategy is a matter of matching the different elements within the organization boundaries (competence and resources) and outside the organization, which is the environment (opportunity and threats). However, whatever strategy a firm may choose, it may (or may not) engage in intelligence-related activities; therefore there is a need for further study to confirm which argument is supported (Matsuno & Mentzer, 2000).

Peripheral Vision

In an increasingly competitive market, a firm should have the ability to access business intelligence on both its focal and peripheral area. The peripheral vision is referred to as a firm's capability that enables it to analyze beyond its current environment. This capability enables a firm to foresee opportunities and threats contained in its peripheral area, so that it is able to take necessary action to benefit from the opportunity or to anticipate its environmental threat. The characteristic of 'vigilant' versus 'vulnerable' are presented in Table 1. The summary assessment of the Strategic Eye Exam (Day & Schoemaker, 2006) is provided in Table 2. And Characteristics of Firms in the Typology of Peripheral Vision is presented in Figure 1.

Table 1 - Vulnerable vs. Vigilant Firms

| Organizational Factors | Vulnerable | Vigilant |
|------------------------------|---|---|
| Leadership | Narrowly focused on current performance and competitors | Focused on periphery |
| Strategy Making | Rigid, static | Inquisitive, option-oriented |
| Knowledge Sharing | Focused on tracking pre-selected business data | Focused on gathering and sharing weak signals |
| Organizational Configuration | Configured to look inside | Configured to look outside |
| Culture | Rigid | Flexible & curious |

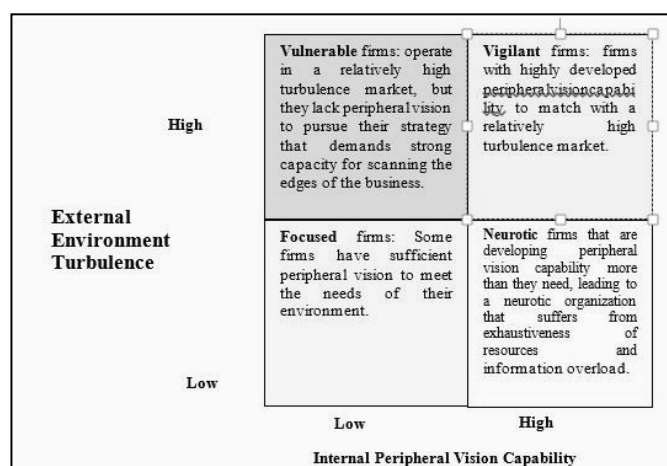
Source: Day & Schoemaker (2006, p. 25)

Table 2 - Strategic Eye Exam Assessment

| Environment factors: | Dimension of the firm's capacity for peripheral vision |
|---|--|
| The nature of strategy orientation (global vs. local) | Strategy making |
| Environment complexity | Knowledge Management System |
| Environment volatility | Configuration (structure and incentive) |
| | Leadership orientation |

Adapted from: Day & Schoemaker (2006)

Figure 1 - Characteristics of Firms in the Typology of Peripheral Vision



Source: Day & Schoemaker (2006, p. 184)

Methodology

Sampling and Unit of Analysis

The sample was drawn from a population representing the consumer goods industry. The identification of the sample of respondents was drawn from a number of databases such as the Indonesian Yellow Pages. The sampling method is based on convenience sampling approach (Agung, 2003). Convenience sampling method theoretically is under the non-probability sampling method (Agung, 2003; Schwarz, 2006). Convenience sampling is used by selecting a sample of the population who are readily available. Convenience sampling is advantages where budget may be a constraint, and when samples are widely spread among the population (Schwarz, 2006).

The unit analysis of this research is people in charge of strategic development and implementation, with positions ranging from manager to upper level of CEO. The entry point to approach the target respondents is according to the organizational structure of the firm. Another approach to organization design which is also used is the traditional design. For this single product firm, target respondents will be the marketing manager. In traditional design, it assigns department, groups or individual responsibility for specific activity such as advertising, sales and promotion, sales and marketing research. This approach may suit an organization with a single product or closely related line marketed to a specific target market (Craven & Piercy, 2003). The selection of target respondents (key informants) is based on their knowledge of organization structure, market, brand and product and their managerial position involved in strategic marketing decisions. With the key informant approach, data is collected from senior managers or above, on information pertaining to the whole organization. It is assumed that such senior managers have the best vantage point for viewing the entire organization and, thus, will provide the most accurate responses (Pecotich & Purdie, 2002).

Instruments, Data Collection and Analysis

Items in the survey instrument are developed from the concepts in the literature review. In developing items to measure the construct, whenever possible it has been drawn from valid measurements provided by previous literature. Modification of the adopted measurements is employed to meet with the present research setting. Each construct is measured by a multi-item scale in a five anchored point scale that is beneficial due to simplicity and easiness to master. In using the subjective approach, respondents were asked to indicate his or her preferences for the given statements. The characteristics of the firm and respondents will also be collected for analysis of the finding purpose. Firm characteristics in this research are assessed by two dimensions of Strategic Eye Exam Assessment developed by Day and Schoemaker (2006) (provided in Table 2) namely 'environmental factors' is used to assess the environmental situation of the company and a firm's peripheral vision capability to assess the firm's internal resources and capability in relation to responding to the environment's challenges and opportunities. The results of this assessment will then develop firms' positioning in each quadrant of the peripheral vision typology. A multi-item scale instrument is used to assess the firm's typology.

Data was collected from companies located in Jakarta and its metropolitan area. Companies were selected for where cost and time may be a constraint. Telephone calls were made to the top administrator of each company to explain the purpose of the study, as well as to solicit agreement for survey participation. A total of 300 questionnaire were hand-delivered or sent via email to the top administrator of each of the companies. The target respondents were CEOs or senior

marketing managers. The questionnaire was administered in Bahasa Indonesia (Indonesian). The questionnaire was accompanied with a cover letter explaining the purpose of the survey.

To assess each firm's typology, the factor score of the firm's assessment was calculated. A factor score is a composite score estimate derived from each of the factors. It is based directly on the factor loading, which means that every variable contributes to the factor score based on the size of its loading. The cut-off between low and high external and internal firm condition was also calculated based on the mean of data factor score. The factor score is used under the consideration that each variable response is not equal; therefore by factor scoring data points are weighted. For data analysis this research employed SPSS software.

Research Findings and Discussion

A total of 120 eligible responses were returned from 300 sets of questionnaire which were distributed between March and June 2014. Therefore, the response rate in this study was 40%. Table 3 provides the respondents' profile.

Table 3 - Respondents' Profiles

| Industry Type | % | Market Coverage area | % | Number of Employees | | Company Ownership | % |
|----------------------------|-----|-----------------------|----|---------------------|-----|-------------------|-----|
| Food and beverage industry | 50 | National | 57 | >1000 | 48 | Joint venture | 23 |
| Pharmaceutical | 11 | Major cities | 15 | 500 to 1000 | 14 | Local | 56 |
| Automobile | 17 | Overseas | 15 | 400 to 500 | 4 | Foreign | 21 |
| Cosmetics | 8 | Java and Jakarta only | 13 | 300 to 400 | 14 | | |
| Home appliances | 11 | | | 200 to 300 | 8 | | |
| Electronics | 3 | | | 100 to 200 | 6 | | |
| | | | | < 100 | 6 | | |
| Total | 100 | | | | 100 | | 100 |

Descriptive Analysis: Classifying the Typology of Peripheral Vision

Factor scores are calculated based on the load factors from internal capabilities and external environmental dimensions. Factor analysis is provided in Table 4, and Table 5 provides the typology frequency.

Table 4 - Factor Analysis of Peripheral Vision Capability

| Variable | | Loading |
|-------------------------|-----------------------------|---------|
| Firm's internal factors | Leader Orientation | 0.314 |
| | Strategic Making | 0.867 |
| | Knowledge Management System | 0.881 |
| | Configuration | 0.888 |
| | Culture | 0.835 |
| Firm's external factors | Nature of Strategy | 0.395 |
| | Environment Complexity | 0.853 |
| | Environment Volatility | 0.849 |

Table 5- Typology: Frequency

| | Frequency | % | % Valid | % Cumulative |
|----------------|-----------|------|---------|--------------|
| Valid Vigilant | 25 | 21% | 21% | 21% |
| Neurotic | 35 | 29% | 29% | 50% |
| Focus | 30 | 25% | 25% | 75% |
| Vulnerable | 30 | 25% | 25% | 100% |
| Total | 120 | 100% | 100% | |

In this research, it was found that 50% or 60 firms are in the food and beverage industry, serving mostly the local market and are locally-owned companies. The detail characteristic for each typology is provided in Table 6.

Table 6. Typology: Characteristic

| Typology | Type of Industry | | PLC Stage | | Market Coverage | | Customer Type | | Ownership | |
|--------------------|-------------------|----|--------------|-----|-----------------|----|---------------|----|---------------|----|
| | | % | | Num | | % | | % | | % |
| Vigilant N= 25 | Food and Beverage | 55 | Introduction | 3 | Jakarta area | 7 | Individual | 53 | Local | 21 |
| | Home Appliances | 5 | Growth | 10 | Major cities | 18 | Business | 0 | Foreign | 56 |
| | Others | 4 | Maturity | 8 | Java area | 7 | Mix | 47 | Joint venture | 23 |
| | Pharmacy | 9 | Decline | 4 | National | 49 | | | | |
| | Apparel | 0 | | | Overseas market | 19 | | | | |
| | Automobile | 14 | | | | | | | | |
| | Cosmetics | 9 | | | | | | | | |
| | Electronics | 4 | | | | | | | | |
| Neurotic N = 35 | Food and Beverage | 66 | Introduction | 10 | Jakarta area | 14 | Individual | 29 | Local | 52 |
| | Cosmetics | 14 | Growth | 0 | Major cities | 0 | Business | 0 | Foreign | 19 |
| | Home Appliances | 5 | Maturity | 20 | Java area | 5 | Mix | 71 | Joint venture | 29 |
| | | | Decline | 5 | National | 62 | | | | |
| | Pharmacy | 0 | | | Overseas market | 19 | | | | |
| | Apparel | 5 | | | | | | | | |
| | Automobile | 5 | | | | | | | | |
| | Others | 14 | | | | | | | | |

| | | | | | | | | | | |
|--------------------|-------------------|----|--------------|----|-----------------|----|------------|----|---------------|----|
| Focused N = 30 | Food and Beverage | 35 | Introduction | 1 | Jakarta area | 13 | Individual | 28 | Local | 64 |
| | Electronics | 2 | Growth | 2 | Major cities | 19 | Business | 0 | Foreign | 19 |
| | Cosmetics | 9 | Maturity | 20 | Java area | 2 | Mix | 72 | Joint venture | 17 |
| | Home Appliances | 9 | Decline | 7 | National | 60 | | | | |
| | Pharmacy | 19 | | | Overseas market | 6 | | | | |
| | Apparel | 0 | | | | | | | | |
| | Automobile | 13 | | | | | | | | |
| | Others | 13 | | | | | | | | |
| Vulnerable N=30 | Food and Beverage | 56 | Introduction | 3 | Jakarta area | 4 | Individual | 32 | Local | 60 |
| | Electronics | 8 | Growth | 15 | Major cities | 16 | business | 0 | Foreign | 24 |
| | Cosmetics | 4 | Maturity | 10 | Java area | 0 | Mix | 68 | Joint venture | 16 |
| | Home Appliances | 4 | Decline | 1 | National | 64 | | | | |
| | Pharmacy | 14 | | | Overseas market | 16 | | | | |
| | Apparel | 4 | | | | | | | | |
| | Automobile | 4 | | | | | | | | |
| | Others | 8 | | | | | | | | |

Profile of Vigilant Firms

In the vigilant typology, the firms perceived their external environment as highly turbulent. They based their competitiveness on attractive prices in the market. They perceived their products are in the growth and maturity stages of their life cycle with a quite stable share of the market. They prioritize their strategy on cost effectiveness or cost optimization of production and marketing processes (Keegan & Davidson, 2003). They were leading companies with high technology in machinery (and formulation) and high standards of hygiene factors and quality of product. They served mostly mixed business and retail customers and the majority were locally-owned companies.

Profile of Neurotic Firms

Neurotic firms are firms which develop peripheral vision capability more than they need, leading to an organization that suffers from exhaustion of resources and information overload. The majority are food and beverage companies. Majority are leaders in the industry, and in the maturity stage of the product life cycle, serving a mix of customers and locally-owned companies. These firms, while they enjoy a relatively stable share in the industry, are seeking new opportunities for new markets or new segments. They claimed this new objective is the companies' priority. Therefore their R & D function and market intelligence are very important units. Therefore, despite having a stable market, firms are aggressively seeking new market opportunities to enter.

Profile of Focused Firms

Focused firms are firms with sufficient peripheral vision capability to meet the needs of their environment. These firms have the advantage of a relatively stable environment. One third of them are in the food and beverage industry (35%) and in the maturity and decline stage. They perceived their market as relatively stable with clear competitors who had knowledge of each other's profiles and strategies. Consumers are well-maintained, as they are important targets for the next purchase (repurchase) situation. Their marketing strategy attempts to defend their share by launching new variants or new market expansions.

Profile of Vulnerable Firms

Vulnerable firms operate in a relatively turbulent market. They lack peripheral vision capability to pursue their strategy that demands strong capacity in market-scanning activity. They were also characterized mostly at the maturity stage of the PLC.

Based on in-depth interview, it was revealed that although the collaboration with a partner may benefit in the short-term, relying too heavily on partners regarding its marketing strategy would not be advantageous in the long run (e.g. distributors) and leads to vulnerability. The lack of knowledge and information of their market prevents them from being able to fulfill opportunities and face challenges from their current and potential competitors.

Managerial & Theoretical Implications and Further Research

Managerial Implications

Managerial implications are provided in Table 7.

Table 7 - Managerial Implications

| Typology | Characteristic | Strategy Recommendation |
|----------|---|---|
| Vigilant | Vigilant has prime capability in finding and exploiting new products and market opportunities | Important for manager to maintain a reputation as an innovator in products and markets -even more important rather than achieving high profitability. World's leading manufacturers of fast moving consumer goods (FMCGs) generate up to 50 per cent of their revenues in emerging markets. Simulated test marketing (STM) is a common practice deployed by these companies to forecast new product sales (Korotkov, Occhiocupo & Simkin, 2013). The findings reinforce the view of market orientation as a dynamic construct which can explain the relationship between businesses and environmental uncertainty. Small businesses with higher levels of market orientation emphasized responsiveness as a critical dimension in orienting to turbulent markets. It also highlighted the aspects of technological turbulence, particularly pertaining to the opportunities for competitive advantage (Didonet, Simmons & Diaz-Villavicencio, 2012) |
| Neurotic | Firms with too much market-scanning activity (over-scanning behavior) | Recommended to make adjustments especially on the cost or investment over their market-scanning activity. Improve its scoping activity by identifying not too broad an area of investigation. Managing and evaluation on cost-effectiveness of market-scanning activity. Eliminate market-scanning activity that leads to high costs and investment such as firm knowledge management system (technology for posing information queries), firm configuration (early warning system/IT, incentive for market-scanning personnel) and firm's resources devoted for scanning the periphery area. |

| | | |
|------------|---|--|
| Focused | Sufficient with low level of peripheral vision capability to operate in stable market environment | Focus on current market and business and develop Product rejuvenation. Depend on firm's ability to sustain at lower cost or heighten product quality and additional services to product (Morgan & Hunt, 1994; Sin et al., 2002; Cross & Smith (1995); Tse et al., 2004; Sorce & Edwards, 2004; Iobucci & Hibbard, 1999; Mullin et al., 2008). Customer relationship management (CRM) developed a separate identity as a result of companies utilizing customer data in managing customer relationships. In this evolution, CRM became a heavily company-oriented construct: customer data were used instrumentally to serve companies' purposes (Saarijarvi, Karjaluoto & Kuusel, 2013). |
| Vulnerable | Vulnerable: lack of market knowledge | -Urgent to develop its market knowledge capability (Day & Schoemaker, 2006) Assign the responsibility to an existing functional group Mobilize ad hoc group Create a market-testing initiative Invest in start-up ventures Focus on strategy to avoid prolonged direct confrontation with larger and stronger competitor (Cravens & Piercy, 2003; Kotler, 2003; Kotler & Singh, 1981) |

Theoretical Implications

This research found that 25 out of 120 firms qualified to be positioned as vigilant, as an ideal firm in terms of their capability to scan the market. This research would suggest that there are pools of firms with high internal capability (demonstrated in the typology of vigilant firms).

Srivastava, Shervani and Fahey (1998) conceptualized that market-based assets would include assets that mainly consisted of two related types; relational and intellectual. The relational assets result from the relationship between a firm and a key external stakeholder, including distributors, retailers, end customers, strategic partners and government. The concept of assets is as a result of the co-mingling of the organization and the environment. Therefore, with such understanding, the concept of market-based assets is well applied as a basis for explaining the firm's peripheral vision capability development.

Limitations of the Study

This research proposed that the typology is dynamic in nature. There are open opportunities for managers to move from one typology to another. However, this research has not provided a systematic explanation on how firms make a shift from one to another, how often such shifts are made, the timing and the transition point of the shift and the implication on a firm's performance.

Further Research

Further research should address the characteristic of the strategic group members of the typologies; the stability or the dynamic of each group, specifically to explain the phenomena that might occur if there are changes in a groups' typology.

Conclusion

The conclusion of this research is provided in the following points:

1. This research provides an important framework for managing a firm's position in the market and uses peripheral vision typology to classify firm's position in the market and as an organizational adaptation capability.

2. This research suggests that typology is dynamic in nature, whereby a company is aware of its position and as it has the capability to move to a desired typology position.
3. Therefore, in responding to the competitive environment, there is an urgent need for a firm to master its peripheral vision capability as an internal capability to face environment challenges.

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